TRINIDAD AND TOBAGO HERITAGE AND STABILISATION FUND

Annual Report 2009

A publication of
The Board of Governors of
The Trinidad and Tobago Heritage and Stabilisation Fund
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TRINIDAD AND TOBAGO
HERITAGE AND STABILISATION FUND

Annual Report 2009

The Heritage and Stabilisation Act, No. 6 of 2007 (hereinafter called "the Act") established the Heritage and Stabilisation Fund (hereinafter called "the Fund") with effect from March 15, 2007 for the purpose of saving and investing surplus petroleum revenues derived from production business in order to:

- Cushion the impact on or sustain public expenditure capacity during periods of revenue downturn whether caused by a fall in prices of crude oil or natural gas;
- Generate an alternate stream of income so as to support public expenditure capacity as a result of revenue downturn caused by the depletion of non-renewable petroleum resources; and
- Provide a heritage for future generations of citizens of Trinidad and Tobago from savings and investment income derived from the excess petroleum revenues.

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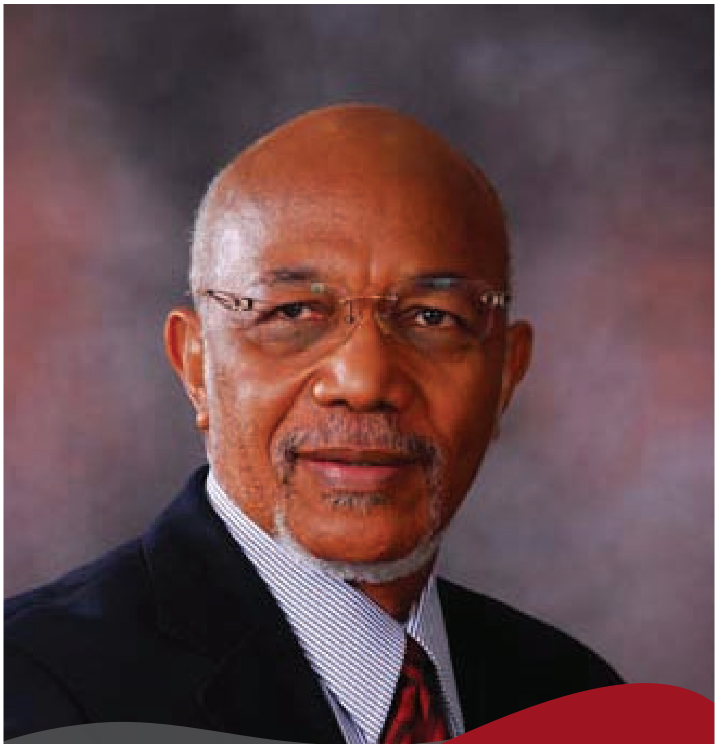
CHAIRMAN'S FOREWORD



Mr. Samuel A. Martin
CHAIRMAN

I am pleased on behalf of the Board, to present the Annual Report of the Heritage and Stabilisation Fund for the year ended September 30, 2009.

Like most sovereign wealth funds, the Trinidad and Tobago Heritage and Stabilisation Fund (HSF) experienced a mixed fiscal year 2009. During the first half of the fiscal year (October 2008 to March 2009), investors witnessed a continuation of the global turmoil which was characterised by unprecedented levels of volatility in international financial markets. The uncertainty arising from the collapse of Lehman Brothers in September 2008 carried over into October, stoking investors' fears and threatening the collapse of the global financial markets. During the period, Central Banks and Governments of developed countries responded by announcing and implementing accommodative monetary and fiscal initiatives.

In these circumstances implementation of the full Strategic Asset Allocation (SAA) was suspended and the Fund took a very conservative stance in the first half of the year by focusing on preservation of capital and not returns. Over this period the Fund performance lagged marginally that of its benchmark. With signs of improvements in the international financial markets emerging in the latter half of the fiscal year, a decision was taken to commence the implementation of the SAA for the Fund. The investment strategy, which envisages a diversified portfolio of equities, fixed income and money market instruments, managed mainly by foreign asset managers, began in August 2009. It is anticipated that this exercise would be fully implemented over the next two years.

The Fund ended the year with 20 percent invested in international equities, 41 percent in international fixed income securities and 39 percent in money market deposits. Through close monitoring, and by seizing the available opportunities offered, we were able to escape the negative returns of some major sovereign wealth funds in the first nine months of the fiscal year. The portfolio returned 2.79 percent over the year compared to 3.61 percent in the previous year.

Given the difficulty experienced in the global economy, oil prices slumped as aggregate demand for the commodity waned. This meant for the period that there were no deposits to the Fund. There were also no withdrawals requested by the Government even though they could have over the period. The net asset value of the Fund grew from US$2,888 million to approximately US$2,964 million solely due to the returns achieved.

Most analysts anticipate that global economies would continue to expand over the next year as expansionary monetary policies provide much needed support. However, given the view that the recovery will be slow, the outlook for the year ahead, while improved, is not likely to see the rapid return of the past. In the meantime, we will remain diligent in our efforts and would continue to seek to achieve the objectives of the HSF.

Mr. Samuel A. Martin
Chairman

Ms. Alison Lewis
Member

Mr. Ewart S. Williams
Member

Mr. Marlon Holder
Member

Dr. Michelle Scobie
Secretary to the Board

GOVERNANCE

Legislation Establishing the Fund

The Heritage and Stabilisation Fund was established by the Heritage and Stabilisation Fund Act of the Parliament of Trinidad and Tobago on the 15th March 2007. Section 3 of the Act provides that the purpose of the Fund is to save and invest surplus petroleum revenues derived from production business in order to:

- Cushion the impact on or sustain public expenditure capacity during periods of revenue downturn whether caused by a fall in prices of crude oil or natural gas;

- Generate an alternate stream of income so as to support public expenditure capacity as a result of revenue downturn caused by the depletion of non-renewable petroleum resources and

- Provide a heritage for future generations, of citizens of Trinidad and Tobago, from savings and investment income derived from the excess petroleum revenues.

Board of Governors

- The Fund is governed by a Board of Governors that in accordance with the Act has delegated the responsibility for management of the Fund to the Central Bank of Trinidad and Tobago.

- The Board reports to the Minister on a quarterly and annual basis through the quarterly and annual investment reports on the Fund.

- The Board decides on the investment objectives and approves manner in which the funds are to be invested by the Central Bank.

The Minister of Finance

The Minister of Finance is responsible for approving deposits and withdrawals from the Fund in accordance with the Act's provisions.

The Central Bank

- The Central Bank is responsible for the day to day management of the Fund and provides quarterly reports to the Board.

- The Schedule to the HSF Act details the responsibilities of the Central Bank.

The Trinidad and Tobago Parliament

- Parliament provides ultimate oversight when the Minister of Finance lays the annual audited financial statements in Parliament, at latest four months after the end of the financial year.

- This gives the peoples of Trinidad and Tobago an opportunity to assess the Fund's performance, thereby fostering transparency and accountability and ensuring effective ownership of the Fund by the population.

Deposits and withdrawals

The Heritage and Stabilisation Fund Act stipulates deposit and withdrawal rules which the Ministry of Finance must apply regarding the Fund.

Deposits

Sections 13 and 14 of the Heritage and Stabilisation Act outline the conditions under which excess revenues must be deposited in the Fund.

Quantum:

- A minimum of sixty per cent of the aggregate of the excess (difference between estimated and actual) revenues for each financial year must be deposited to the Fund during that financial year.
- Estimated petroleum revenues are calculated based on defined international sources.

Timing:

Deposits are to be made quarterly at latest one month after the end of that quarter (quarter under the Act being: December 31, March 31, June 30 and September 30 of each year).

Withdrawals

Section 15 of the Heritage and Stabilisation Act outlines the conditions under which revenues may be withdrawn from the Fund.

Quantum:

Estimated petroleum revenues for a financial year must fall below ten percent before the Government may withdraw from the Fund.

Limitations on Withdrawals

- The withdrawal must be less than sixty percent of the amount of the shortfall of estimated petroleum revenues for the relevant year.

- The moneys withdrawn may not exceed twenty five percent of the balance of the Fund at the beginning of that year.

- The Act precludes any withdrawal that will reduce the size of Fund to less than one billion US dollars.

OVERVIEW OF FUND ACTIVITIES

Reports to Parliament

The Audited Financial Statements for the period ending September 30th, 2008 were presented to Parliament in March of this year and the 2008 Annual Report was also laid in Parliament in March of this year.

Operational and Investment Policy

The Board approved the Trinidad and Tobago Heritage and Stabilisation Fund Operation and Investment Policy which provides the framework for the management of the Heritage and Stabilisation Fund. This framework outlines the following key aspects of the investment management processes of the HSF:

- The responsibilities for the management of the HSF;
- The investment goals and objectives of the HSF;
- The rules, procedures and limitations which ought be adhered to by all investment managers with responsibility for theinvestment of the assets of the HSF;
- The criteria to measure, monitor and evaluate the performance of the HSF and
- The investment structure for the HSF's assets (eligible asset classes, strategic asset allocation and risk budget).

Funding of External Managers

The Board, on the advice of the Central Bank, chose the external managers who would be engaged to manage the portfolios of the HSF and approved the implementation of the Strategic Asset Allocation of the HSF Portfolio as international financial markets returned to a greater level of stability. This transition will be gradual and is expected to be completed by January, 2011.

INVESTMENT REPORT

Macroeconomic Environment

The fiscal year 2009 was characterised by two distinct periods of contrasting realities. During the first half of the year, the performance of the global economy remained weak and uncertain and the financial markets were significantly impacted. This led to unprecedented Government and Central Banks' interventions as countries attempted to stabilize markets and shore up investor confidence. The support provided by Central Banks, Government and other regulatory agencies of advanced countries included purchases of impaired assets, securities' guarantees and temporary liquidity support. The impact of these policy responses, are just beginning to be felt as Global Gross Domestic Product (GDP) swung from a 7.50 percent annualised contraction in the first quarter of calendar 2009 to an estimated 3.80 percent growth in the third quarter of 2009. The signs of recovery are being seen in most of the major economies. The United States, Germany and France all showed an expansion in economic growth in the second half of 2009, following more than three consecutive quarterly declines. A notable exception is the United Kingdom's economy which continued to contract, whilst emerging market nations such as China and Brazil continued to grow albeit at a slower rate.

The economies of the advanced countries seem to be on the mend in recent times as indicated by some moderately positive signs in the housing and manufacturing sectors. The labour market however is still a concern as unemployment rates are at worrying levels.There maybe some cause for cautious optimism as the rate of increase in job losses has moderated somewhat.Given the emerging signs, market sentiment has become more optimistic in the latter part of the year. Investors have begun to show greater interest in riskier assets, as a result of which prices have appreciated markedly. Some concerns remain, however, as analysts have questioned the sustainability of the recovery.

Chart 1
Global Unemployment Rates

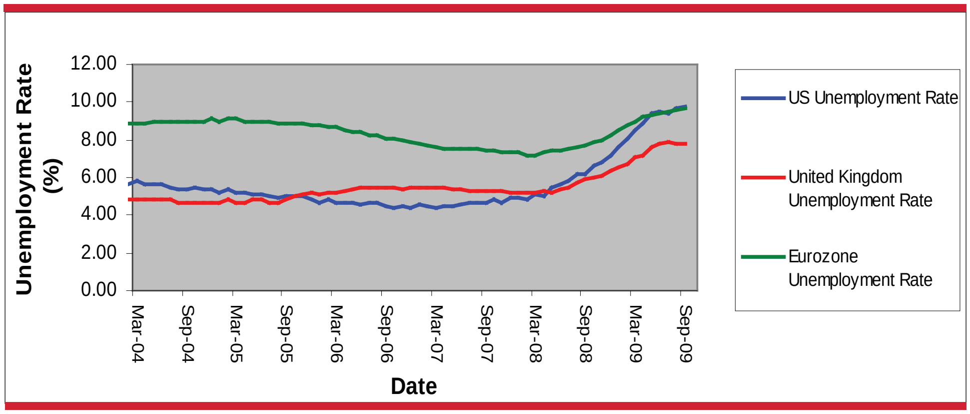
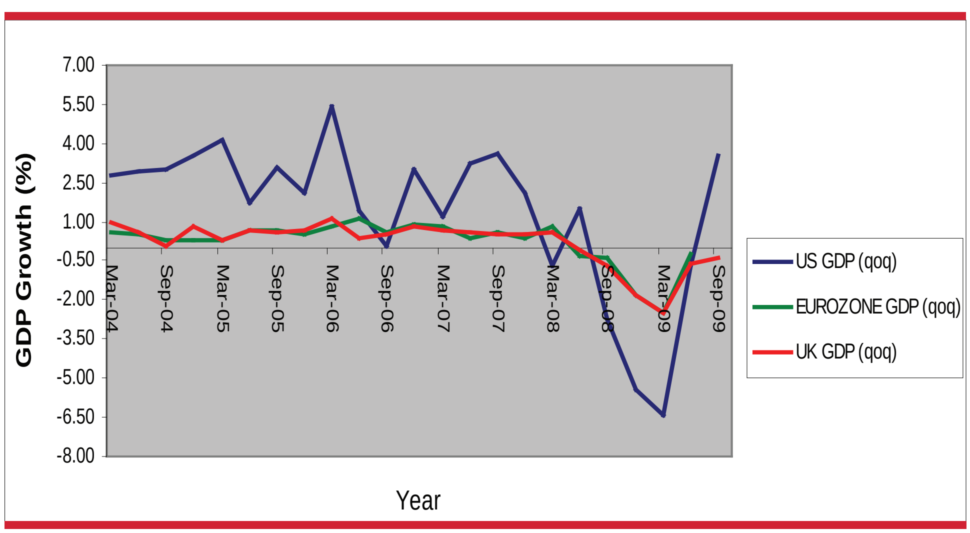


Chart 2
Global GDP Growth



Financial Market Review

This section reviews the performance of those markets that impacted the performance of the Fund.

(a) Money Market

The aggressive cuts in policy interest rates during the period caused short-term money market rates to fall substantially. Accordingly, the US one-month London Inter Bank Offered Rate (LIBOR) was 0.29 percent at the end of September 2009 down from 4.05 percent, one year earlier. Improvements in the credit sector and inter-bank lending were reflected in an orderly fall in LIBOR rates as liquidity in most financial markets normalized.

(b) Fixed Income Market

Over the year, the fixed income markets benefited also from the aggressive cuts in interest rates, and also from the implementation of the various stimulus packages that specifically supported this market. For example, the US Treasury's purchase of US agencies' securities improved liquidity in the market and performance.

The fixed income market in the United States, as represented by the Barclays US Aggregate Index (a market-value -weighted index of taxable investment -grade fixed-rate debt issues, including government,corporate,asset-backed, and mortgage backed securities, with maturities of one year or more) returned 10.56 percent for the financial year. This compared with a return of 3.65 percent during the 2008 financial year.

Chart 3
Global Manufacturing Indices

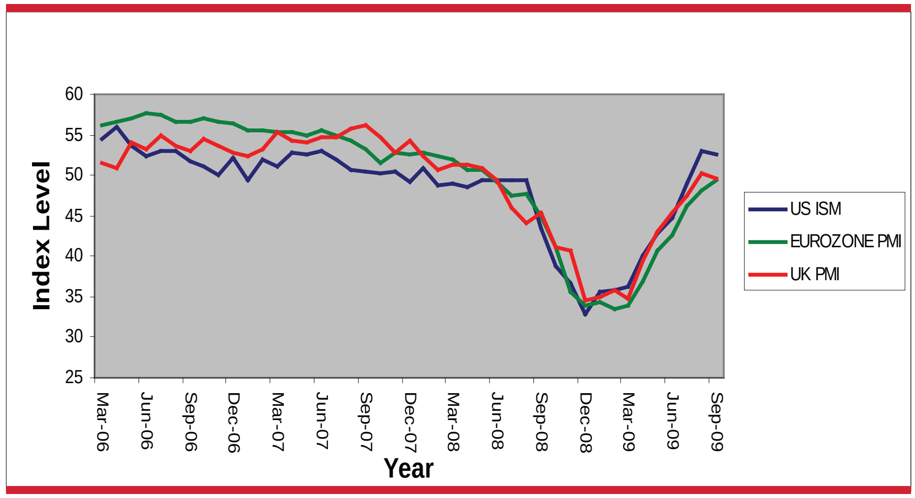


Chart 4
Global Inflation Indicators

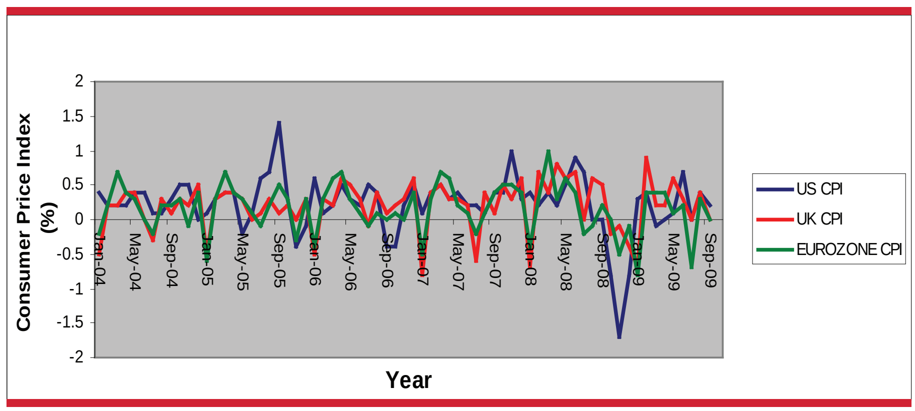
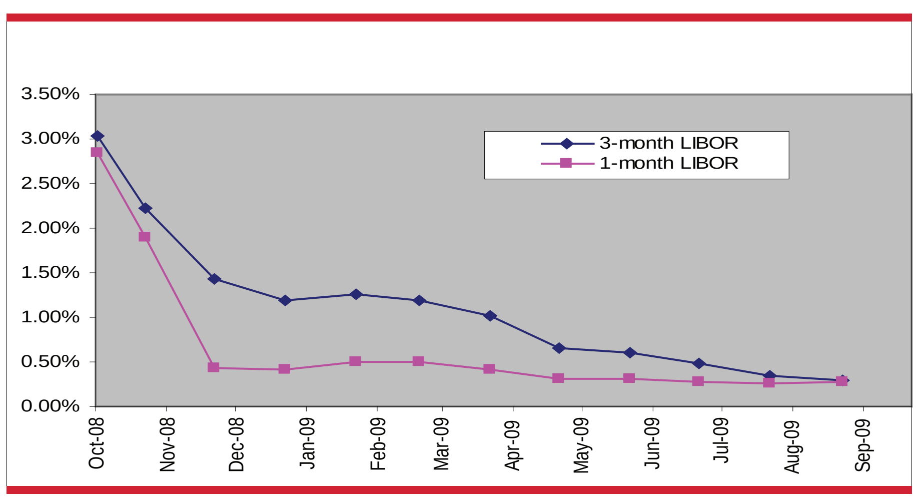
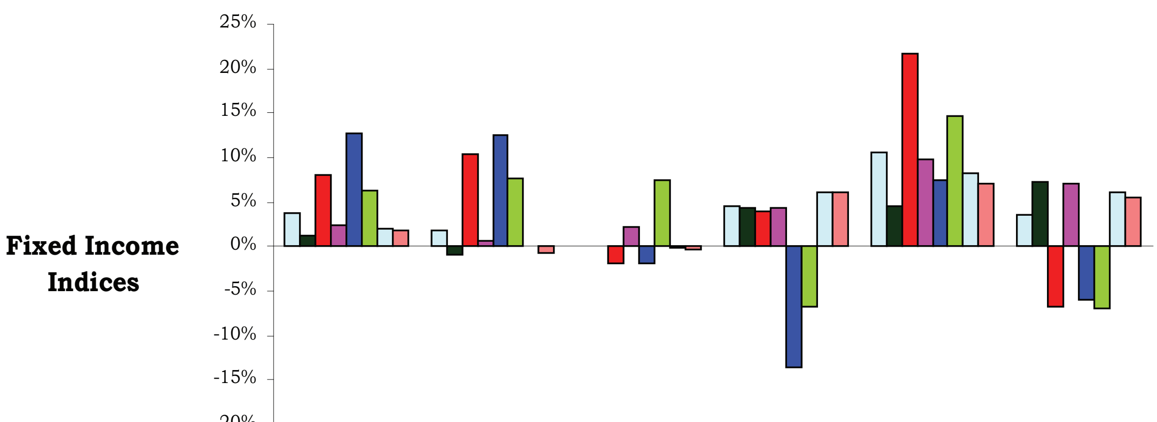


Chart 5
US Libor Rates



The corporate sector of the Barclays US Aggregate was the best performer returning 21.77 percent. The corporate bond sector's strong performance was mainly due to the guarantee that some financial companies' debt received from their respective governments under some of the various stimulus programs. This series of actions helped significantly in shoring up investor confidence resulting in increased demand for these types of securities. In addition to the Corporate Sector, the Asset Backed Securities (ABS) and Commercial Mortgage Backed Securities (CMBS) sectors also performed well, returning 14.68 percent and 7.56 percent respectively. US Treasury securities as measured by the Merrill Lynch 1-5 Index also posted positive returns yielding 4.59 percent for the fiscal year, as Chart 6 below reflects. In general the investors' demand for less risky assets waned as we got further away from the events of September 2008 crisis, when most investors looked to US Treasuries and government guaranteed securities for safe havens. As confidence returned to the market what was considered more risky assets found favour with investors as their risk appetite increased.

Chart 6
Fixed Income Indices



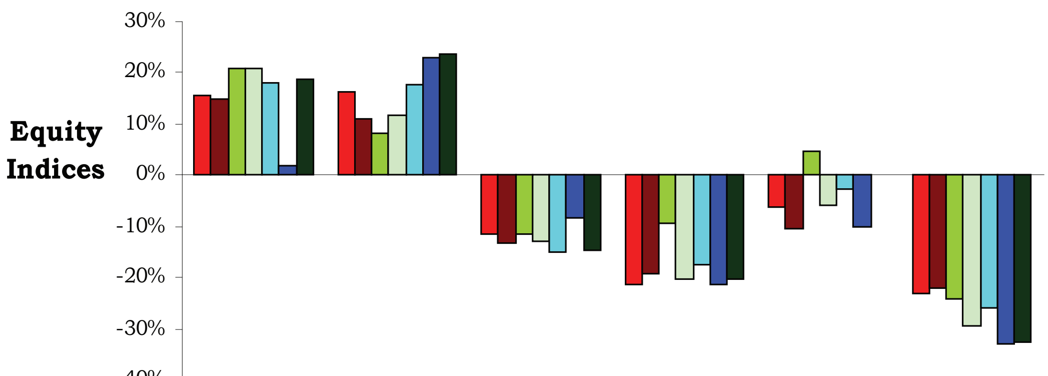
	Qtr 4 08/09	Qtr 3 08/09	Qtr 2 08/09	Qtr 1 08/09	FYD	FY 07/08
Barclays U.S. Aggregate	3.744%	1.78%	0.12%	4.58%	10.56%	3.65%
ML U.S. Treasury 1-5 Years	1.201%	-0.87%	-0.01%	4.27%	4.59%	7.36%
U.S. Corporate	8.12%	10.45%	-1.93%	3.98%	21.77%	-6.78%
U.S. MBS	2.31%	0.70%	2.20%	4.34%	9.85%	7.02%
CMBS Index	12.70%	12.46%	-1.87%	-13.52%	7.56%	-6.03%
ABS Index	6.30%	7.64%	7.56%	-6.82%	14.68%	-7.04%
U.S. Agencies	2.023%	0.10%	-0.14%	6.10%	8.21%	6.11%
G-7 Global Bonds (Hedged)	1.88%	-0.78%	-0.28%	6.19%	7.04%	5.61%

Equity Market

Global equity markets valuations fluctuated significantly during the financial year. Earlier in the year, slowing economic growth and illiquid credit markets led to a weakening of the equity prices. However, by March of 2009 markets began a steady rise as the sizeable government bailouts began to restore confidence and investors became more comfortable with risk taking. Consequently, the major global equity market indices all recorded substantial gains in the second half of the fiscal year. For instance, the Standard and Poor's 500 Index (a proxy for the United States equity markets) rose by 56 percent from March to September, 2009.

Despite the rally in equity markets in the second half of the fiscal year, the Dow Jones Industrial Average and the Russell 3000 returns were still negative when measured from the beginning of the fiscal year (October 2008 to September 2009), falling 10.49 percent and 6.16 percent, respectively. International equity indices such as the (CAC 40), the (DAX 30) and the (Nikkei 225) all recorded losses in market value of 5.87 percent, 2.67 percent, and 10.01 percent, respectively when measured year over year. The only exception was the United Kingdom (FTSE 100) which rose 4.72 percent. Chart 7 below details the evolution of return in the various equity markets.

Chart 7
Equity Indices



	Qtr. 4 FY09	Qtr. 3 FY 09	Qtr 2 FY 09	Qtr 1 FY 09	FY 08/09	FY 07/08
Russell 3000	15.73%	16.15%	-11.42%	-21.19%	-6.16%	-23.14%
Dow Jones	14.98%	11.01%	-13.30%	-19.12%	-10.49%	-21.91%
FTSE 100 - UK	20.82%	8.23%	-11.46%	-9.55%	4.72%	-24.19%
CAC 40 - France	20.86%	11.87%	-12.76%	-20.19%	-5.87%	-29.46%
DAX 30 - Germany	18.02%	17.72%	-15.08%	-17.51%	-2.67%	-25.83%
Nikkei 225 - Japan	1.76%	22.80%	-8.47%	-21.32%	-10.01%	-32.92%
MSCI EAFE	18.79%	23.76%	-14.64%	-20.33%	-0.02%	-32.48%

Update on Strategic Asset Allocation

In October 2008, the HSF Board took the decision to postpone the transition towards the Strategic Asset Allocation (SAA) given the instability in the global financial markets. Financial conditions continued to worsen in the first six months of the fiscal year as a result the Fund remained invested in high quality assets comprising of approximately 95% in money market instruments and 5% in US Treasuries. This approach served the Fund well amidst the global financial turmoil, as it was one of the few Sovereign Wealth Funds to have positive returns during this period.

However, during this period of instability, the Fund was constantly monitoring market conditions for evidence of stabilisation in order to commence the transition process.By March 2009, signs of improvement in the heavily dislocated financial markets began to emerge, as financial markets asset prices appeared to have bottomed, interbank lending rates gradually began coming down and investors were once again engaging in risk taking activities.

These nascent signs of improvements came primarily as a result of the various stimulus packages implemented by governments around the world in late 2008 and early 2009. Against the backdrop of stabilisation in the financial markets in the latter half of the year, the Fund commenced negotiations with the external investment managers while setting up the operational framework to ensure the smooth implementation of the SAA. Following the external managers' selection process in 2008, Table 1 below summarizes the on-boarding activities of the Fund for the financial year ending September 30, 2009.

Table 1

Activity	Completion Date
Finalize the Operational and Investment Policy Document	January 2009
Enter into the negotiation of the Investment Management agreements with the individual external investment managers	May 2009
Finalize and execute the Investment Management agreements with the individual investment managers	July 2009
Execute contracts with Indices providers to enable custodian and external investment managers access to the customized benchmarks	July 2009
Arrange for the Securities' Custodian to create accounts for the external investment managers	August 2009
Transfer funds to Managers. Negotiate futures clearance contracts. Set up reporting and accounting framework.	August 2009

Strategic Asset Allocation

In August 2009, the Fund allocated US$1.6 billion to a first set of external investment managers. The transition to the SAA is expected to be completed by January 2011 as shown in Table 2, provided favourable market conditions persist. Upon attainment of the SAA, the Fund would be fully invested in the four major asset classes as follows:

1) US Short Duration Fixed Income Mandate (25.0%)
2) US Core Domestic Fixed Income Mandate (40.0%)
3) US Core Domestic Equity Mandate (17.5%)
4) Non US Core International Equity Mandate (17.5%)

The pie charts below show the SAA's target asset allocation as well as the portfolio composition as at September 30th 2009. (Figures 1 and 2).

Figure 1:
Target SAA

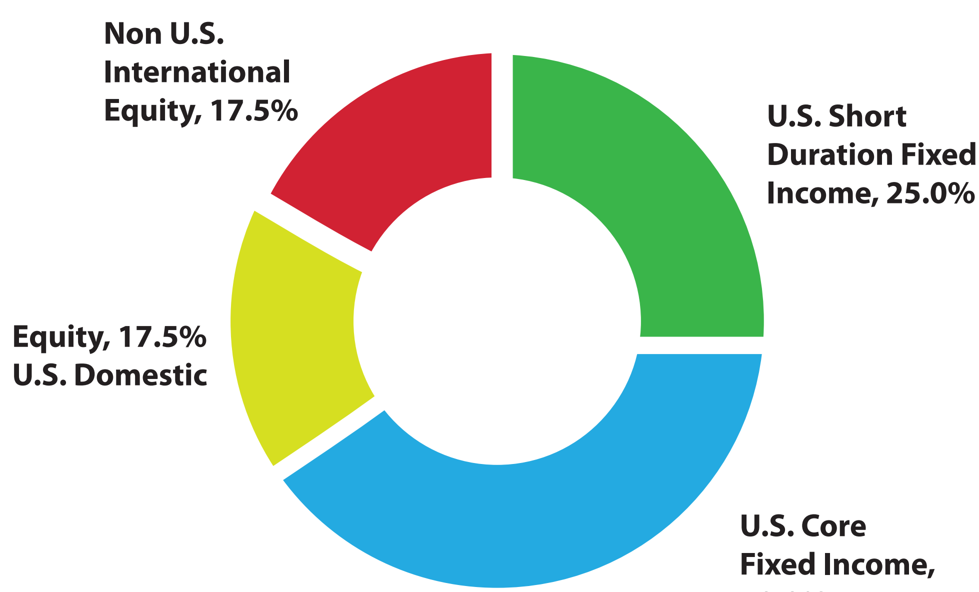


Figure 2:
Portfolio Composition as at 30/09/2009

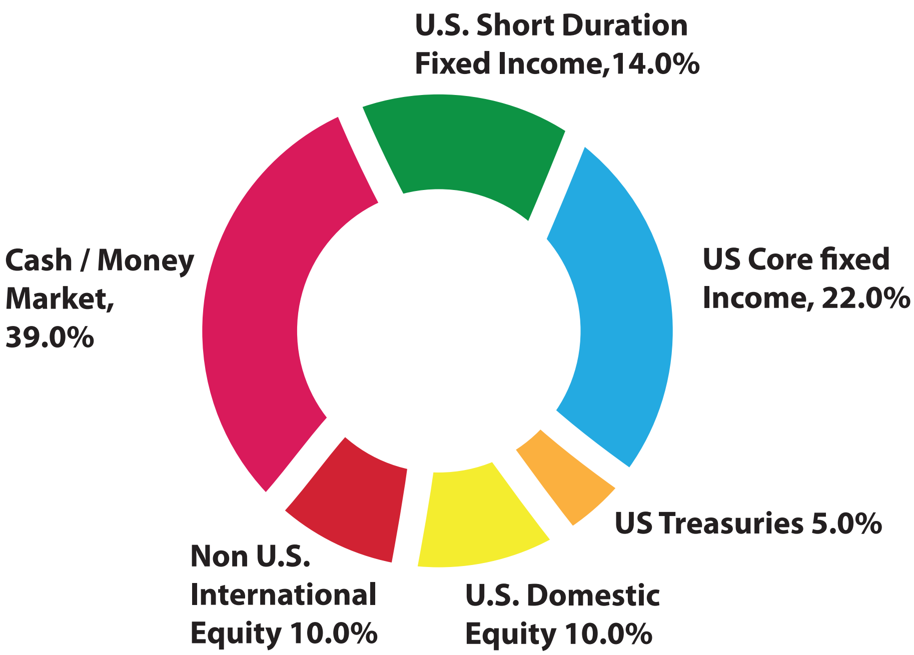


Table 2
Transition Plan: Asset Allocation

	Asset Class	Jun - 09	Sep - 09	Jan-10	Apr-10	Jul -10	Oct-10	Jan-11
Portfolio Weights	US Fixed Deposits	95.00%	39.00%	30.00%	22.00%	14.00%	6.00%	0.00%
	Merrill Lynch US 1-5 Treasury Index	5.00%	14.00%	17.50%	19.50%	21.50%	23.50%	25.00%
	Fixed Income (Barclays US Aggregate)	0.00%	22.00%	28.00%	31.20%	34.40%	37.60%	40.00%
	US Equities (Russell 3000 ex energy)	0.00%	10.00%	12.25%	13.65%	15.05%	16.45%	17.50%
	Non-US equities (MSCI EAFE ex energy)	0.00%	10.00%	12.25%	13.65%	15.05%	16.45%	17.50%

Portfolio Performance

The HSF Composite portfolio returned 2.79 percent for the financial year, underperforming the Composite Benchmark[1] by 39 basis points. This underperformance relative to the Benchmark came primarily from the money market segment of the Composite portfolios, which accounted for 23 basis points of the underperformance. Another 18 basis points arose from the initial funding of the external managers. (See Table 3 for details)

TABLE 3

Portfolio Performance

Twelve Months Performance	HSF	Benchmark	Excess Return
Composite Portfolio	2.79%	3.18%	-0.39%
Money Market	0.70%	0.93%	-0.23%
U.S. Treasury Portfolio	0.26%	0.26%	0.00%
US Short Duration Fixed Income	0.19%	0.17%	0.02%
US Core Fixed Income	0.44%	0.51%	-0.07%
US Core Domestic Equity	0.55%	0.59%	-0.04%
Non U S Core International Equity	0.61%	0.69%	-0.08%

The underperformance in the money market segment of the portfolio arose primarily from a decision taken in the first quarter of the financial year when financial markets were still reeling from the Lehman Brothers' Bankruptcy and investors were increasingly concerned over counterparty risk. As a result, the Fund adopted measures to mitigate the risk of uncertainty by shortening term deposits from the usual 1-3 months to 1-2 weeks. These placements attracted lower interest rates than the yield on the money market benchmark.

In addition, the costs (implicit and explicit) associated with the initial investment in the equity and fixed income sector also contributed to the underperformance of the Composite Portfolio. Like any large investments, the Fund incurred some market impact costs[2] as the external managers implemented the investment strategies. In addition, most managers were not fully invested on the first day of the mandate, but took the cautious approach to increase investments over time. It is anticipated that these costs would be recovered in due course and the Fund would be capable of generating consistent excess returns over the benchmarks.

The HSF Fixed Income and Money Market Portfolios returned 1.58 percent whilst the Equity mandates yielded 1.16 percent for the period under review. In the latter months of the year, prices across the majority of sectors in the Fixed Income Markets rose, with performance being particularly strong in the Corporate sub-sector (both Investment Grade and High Yield) as well as in the Asset Backed and Mortgage Backed Securities markets. The market value of the fixed income and money market segment of the Fund stood at US$2,373 million as at the end of September 2009 (see Table 4).

[1] In August 2009, International Equities and Fixed Income Securities were added to the HSF portfolio. The performance benchmark for the HSF portfolio became a blended benchmark which comprises, Merrill Lynch US Treasury 1-5 Years Index, US One-month LIBID Index, Barclays US Aggregate, Russell 3000 ex Energy, MSCI EAFE ex Energy.

[2] Also called price impact costs. These costs (bid /ask spreads) rise with increases in the level of investment in current assets.

TABLE 4

HSF's Key Figures 2008/2009

Market Value in USD at September 30, 2009	**2,966,345,087**
US Fixed Deposit Portfolio	1,153,475,130
US Government Treasury Portfolio	162,113,509
US Short Duration Fixed Income Portfolio	405,424,827
US Core Fixed Income Portfolio	652,316,529
US Core Equity Portfolio	295,835,754
Non US Core International Equity Portfolio	297,179,338
Contributions for Fiscal Year	NIL
Portfolio Return	2.79%
US Fixed Deposit Portfolio	0.70%
US Government Treasury Portfolio	0.26%
US Short Duration Fixed Income Portfolio	0.19%
US Core Fixed Income Portfolio	0.44%
US Core Equity Portfolio	0.55%
Non US Core International Equity Portfolio	0.61%
Benchmark Return	3.18%

The equity mandate, in existence for only two months of the year, also delivered positive returns providing a total contribution of 1.16 percent to the total return over the year. More specifically, the US Core Equity mandate, while being neutral on sector exposure, versus the benchmark benefited from favourable stock selections.

The Fund invested in companies like Amazon, Dow Chemical and Citigroup that outperformed their respective sectors although its exposures to companies like Corning and Verizon detracted from the overall performance. In addition, the Non-US International Equity Portfolio benefited from both positive returns and from stock selection decisions in Australia, France and the UK.

Investments in the Netherlands and Greece weighed negatively on the overall performance. The market value of equities as at September 30th 2009 was approximately US$593 million (see Table 4).

In addition to market and security exposure, the Fund was also exposed to various currencies. (See Table 5 for country and implied currency breakdown).

TABLE 4

HSF's % Implied Currency Exposure

Currency	% Currency Exposure
AUSTRALIAN DOLLAR	0.76%
CANADIAN DOLLAR	0.09%
DANISH KRONE	0.03%
EURO CURRENCY	3.24%
HONG KONG DOLLAR	0.19%
JAPANESE YEN	2.11%
NEW ZEALAND DOLLAR	0.07%
NORWEGIAN KRONE	0.08%
POUND STERLING	1.79%
SINGAPORE DOLLAR	0.08%
SWEDISH KRONA	0.03%
SWISS FRANC	0.42%
US DOLLAR	91.13%
COMPOSITE TOTAL	100.00%

As indicated earlier, 2009 was a difficult period as oil prices slumped over concerns about a global recession. The national budget was predicated on an oil price of $70 per barrel and over the fiscal year it averaged $57.26 (West Texas Intermediate). On this basis revenue collections were lower than forecasted. Given this revenue shortfall there were no deposits to the Fund.

It should be noted that the HSF Act 2007 allows for withdrawals in this circumstance and no request from government was received over the period.

The net asset value of the portfolio (money market, fixed income and equity) at September 30th 2009 was approximately US$2,964 million, up from US$2,888 million as at September 2008. Contributions from dividends from the US Equity and International equities portfolios,interest income from the US Core Fixed Income portfolio and overall price appreciation accounted for the increase in the market value of the Fund over the year.

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Portfolio Risk

The main risks for the HSF portfolio are credit risk, interest rate risk, concentration risk and currency risk.

Credit Risk

For the money market portion of the Fund, credit risk is minimized by the adherence to certain strict standards before deposits can be placed with any money market counterparty. In the first instance, all counterparties must have a minimum credit rating of either A1 from the Standard and Poor's rating agency or P1 from Moody's.Credit risk is further minimized by the implementation of a maximum exposure limit for the counterparties. No more than 5% of the market value of the portfolio can be invested with a single money market counterparty.

For Fixed Income Instruments, credit risk is mitigated by having strict credit concentration limits as well as minimum credit quality ratings. The HSF requires its core fixed income managers to invest in bonds that have an impliedinvestment grade rating as defined by Standard and Poor's, Moody's or Fitch. Should the required ratings on anexisting fixed income security fall below the minimum standards, the security must be sold within an agreed upontimeframe. For the equity portfolios, credit risk is managed by imposing a maximum percentage holding of 3.0% of the security's outstanding shares as well as a 5.0% sector and 3.0% maximum holding limits of any one security above benchmark weighting.

Interest Rate Risk

Interest Rate Risk is managed using a weighted average effective duration limit on the respective portfolios, with a maximum allowable range of one (1) year longer or shorter than the weighted average duration of the respective Benchmark.

Concentration risk

Concentration or diversification risk is the risk of loss attributable to holding investments from a single investment style or class. The SAA seeks to reduce this risk by ensuring the Fund's assets are invested across various asset classes.The portfolio would be invested across four asset classes as follows; US Short Duration Fixed Income Mandate, US Core Domestic Fixed Income Mandate, US Core Domestic Equity Mandate, Non US Core International Equity Mandate. Each asset class that the Fund invests in reacts differently under the same market conditions and usually when one asset class has strong returns, another will have lower or even negative returns. By diversifying the Fund's investments across a number of asset types, the total risk of the portfolio is reduced.

Currency Risk

For the Fixed Income and US Core Domestic Equity mandates, no more than 10% of the market value of the portfolio can be invested in securities denominated in currencies other than the US Dollar. For the Non-US Core International Equity mandates, the Fund absorbs the currency risk with currency hedging allowed for up to 15% of the market value of the portfolio. The base currency is the US Dollar.

Appendix I

HSF Portfolio

Historical Performance since Inception

Quarter End	Current Returns Portfolio %	Current Returns Benchmark %	Current Returns Excess bps	Fiscal YTD Portfolio %	Fiscal YTD Benchmark %	Fiscal YTD Excess bps	Annualised Return Since Inception Portfolio %	Annualised Return Since Inception Benchmark %	Annualised Return Since Inception Excess bps
FY 2007									
March	0.233	0.230	0.30						
June	1.327	1.316	1.04						
September	1.381	1.376	0.52	**2.966**	**2.947**	**1.89**	**5.475**	**5.440**	**3.50**
FY 2008									
December	1.252	1.269	-1.80						
March	0.907	0.960	-5.28						
June	0.730	0.626	10.36						
September	0.685	0.592	9.27	**3.614**	**3.491**	**12.30**	**4.337**	**4.242**	**9.48**
FY 2009									
December	0.762%	0.987%	-22.549	**0.762%**	**0.987%**	**-22.49**	**4.191%**	**4.244%**	**-5.25**
March	0.078%	0.071%	0.62	**0.841%**	**1.060%**	**-21.88**	**3.719%**	**3.762%**	**-4.30**
June	0.024%	0.031%	-0.69	**0.865%**	**1.091%**	**-22.60**	**3.325%**	**3.366%**	**-4.15**
September	1.904%	2.065%	-16.05	**2.786%**	**3.179%**	**-39.26**	**3.804%**	**3.910%**	**-10.62**

Note:

(1) In May 2008, US Treasury instruments were added to the HSF portfolio. As a result, the performance benchmark for the HSF portfolio became a blended benchmark, which comprised of 2.5% Merrill Lynch US Treasury 1-5 Years Index and 97.5% US One-month LIBID Index.

(2) In August 2009, International Equities and Fixed Income Securities were added to the HSF portfolio.
The performance benchmark for the HSF portfolio became a blended benchmark which comprises, Merrill Lynch US Treasury 1-5 Years Index, US One-month LIBID Index, Barclays US Aggregate, Russell 3000 ex Energy, MSCI EAFE ex Energy.

APPENDICES

Appendix II

Heritage and Stabilisation Fund
Portfolio Valuation and Cash flows (USD)

Valuation Date	Net Asset Value	Income	Contributions
March 15th, 2007	1,402,178,155.01	0	
March 31st, 2007	1,405,448,567.24	3,270,412.33	
April 30th, 2007	1,411,478,932.10	6,030,364.86	
May 31st, 2007	1,417,875,123.07	6,396,190.98	
June 30th, 2007	1,424,094,965.45	6,219,841.89	
July 31st, 2007	1,510,286,135.41	6,477,228.26	79,713,942.22
August 31st, 2007	1,517,179,218.56	6,893,083.09	
September 30th, 2007	1,766,200,701.73	6,928,748.59	241,992,101.13[1]
October 31st, 2007	1,773,862,028.73	7,759,113.00	
November 30th, 2007	1,780,847,020.73	6,987,839.67	
December 31st, 2007	1,788,304,749.27	7,457,728.54	–
January 31st , 2008	1,795,307,089.20	7,003,928.24	
February 29th, 2008	1,799,941,409.88	5,019,474.67	
March 31st, 2008	1,804,531,743.56	4,590,333.68	
April 30th, 2008	1,988,785,132.77	4,042,772.01	180,210,617.20
May 31st, 2008	1,993,347,377.77	4,562,245.00	
June 30th, 2008	1,997,251,772.00	5,476,329.00	
July 31st, 2008	2,460,269,502.00	4,599,453.00	458,130,174.00
August 31st, 2008	2,466,193,072.00	5,461,046.00	
September 30th, 2008	2,888,421,556.00	5,699,080.57	415,833,666.53
October 31st, 2008	2,896,852,886.00	7,192,244.00	
November 30th, 2008	2,906,013,589.59	5,576,434.00	
December 31st, 2008	2,909,717,167.00	3,529,009.00	
March 31st, 2009	2,911,075,318.00	1,101,561.00	
April 30th, 2009	2,911,343,718.76	1,328,807.23	
May 31st, 2009	2,912,170,307.95	1,104,075.49	
June 30th,2009	2,912,040,600.39	1,188,606.07	
July 31st,2009	2,913,809,000.00	1,040,794.00	
August 31st, 2009	2,934,901,340.00	1,727,435.00	
September 30th, 2009	2,964,686,478.00	4,361,407.00	

[1] The last quarter contribution for the fiscal year 2006/07 was paid on September 28, 2007.

CB 6/4/2009/54

AUDITOR GENERAL
2ND PODIUM FLOOR
ERIC WILLIAMS FINANCE BUILDING
ERIC WILLIAMS FINANCIAL COMPLEX
INDEPENDENCE SQUARE
PORT-OF-SPAIN

2009 November 26

The Chairman
Board of Governors
Heritage and Stabilisation Fund
of the Republic of Trinidad and Tobago
Level 8, Nicholas Tower
Independence Square
PORT OF SPAIN

Dear Sir,

Report of the Auditor General of the Republic of Trinidad and Tobago on the Financial Statements of the Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago for the year ended 2009 September 30

Forwarded herewith is my Report on the Financial Statements of the Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago (the Fund) for the year ended 2009 September 30.

2. In accordance with section 21 (1) of the Heritage and Stabilisation Fund Act, 2007, the Report has been forwarded to the Minister of Finance for laying in Parliament.

3. A copy of the Report has been forwarded to the Central Bank of Trinidad and Tobago in its capacity as Manager of the Fund.

Yours faithfully,

SHARMAN OTTLEY
AUDITOR GENERAL

REPORT OF THE AUDITOR GENERAL OF THE REPUBLIC OF TRINIDAD AND TOBAGO ON THE FINANCIAL STATEMENTS OF THE HERITAGE AND STABILISATION FUND OF THE REPUBLIC OF TRINIDAD AND TOBAGO FOR THE YEAR ENDED 2009 SEPTEMBER 30

The accompanying Financial Statements of the Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago (the Fund) for the year ended 2009 September 30 have been audited. The Statements comprise a Statement of Financial Position as at 2009 September 30, a Statement of Comprehensive Income, a Statement of Changes in Equity and a Statement of Cash Flows for the year ended 2009 September 30 and Notes to the Financial Statements numbered 1 to 10.

MANAGER'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

2. The Central Bank of Trinidad and Tobago as Manager of the Fund is responsible for the preparation and fair presentation of these Financial Statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

3. The Auditor General's responsibility is to express an opinion on these Financial Statements based on the audit. The audit which was carried out in accordance with section 116 of the Constitution of the Republic of Trinidad and Tobago and section 16 (1) of the Heritage and Stabilisation Fund Act, 2007 (the Act) was conducted in accordance with generally accepted Auditing Standards. Those Standards require that ethical requirements be complied with and that the audit be planned and performed to obtain reasonable assurance about whether the Financial Statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. It is my view that the audit evidence obtained is sufficient and appropriate to provide a basis for the comments made at paragraphs 5 and 6 of this Report.

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OPINION

5. In my opinion, the Financial Statements as outlined at paragraph one above present fairly, in all material respects, the financial position of the Heritage and Stabilisation Fund as at 2009 September 30 and its financial performance and its cash flows for the year ended 2009 September 30 in accordance with International Financial Reporting Standards.

EMPHASIS OF MATTER

6. Without qualifying the above opinion, attention is drawn to the following matter which was raised in the Auditor General's Report on the financial statements of the Fund for the year ended 2008 September 30 and which has not been resolved. At paragraph 6 of that Report it was stated as follows:

'(i) Section 13 (1) of the Act states:

"*Where petroleum revenues collected in each quarter of any financial year –*

(a) exceed the estimated petroleum revenues for that quarter of the financial year by more than ten per cent, the currency of the United States of America equivalent of the excess revenue shall be withdrawn from the Consolidated Fund and deposited to the Fund in accordance with section 14(1); or

(b) exceed the estimated petroleum revenues for that quarter of a financial year but do not exceed such estimated revenues by at least ten per cent, the Minister may direct that the currency of the United States of America equivalent of all or part of the excess revenue shall be withdrawn from the Consolidated Fund and deposited to the Fund in accordance with section 14(1)."

(ii) Section 14 (1) of the Act states:

"A minimum of sixty per cent of the aggregate of the excess revenues shall be deposited to the Fund during a financial year."

(iii) The above quoted sections of the Act are open to interpretation. It is recommended that suitable amendments be made to the Act to provide for greater clarity with regard to deposits to the Fund.'

REPUBLIC OF TRINIDAD AND TOBAGO
2009 11 26
AUDITOR GENERAL

2009 NOVEMBER 26

SHARMAN OTTLEY
AUDITOR GENERAL

Auditor General's Report
HSF 2009

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APPENDICES

HERITAGE AND STABILISATION FUND OF THE REPUBLIC OF TRINIDAD AND TOBAGO

FINANCIAL STATEMENTS
for the year ended 30 September 2009

APPENDICES

Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago

Statement of Financial Position
as at 30 September 2009
(Expressed in United States Dollars)

	Notes	Sep-09 $	Sep-08 $
ASSETS			
Current assets			
Cash on hand and at banks	4	1,154,247,798	2,341,921,417
Investments	5	1,925,173,747	123,070,598
Accounts Receivable	6	165,361,032	423,644,326
TOTAL ASSETS		**3,244,782,577**	**2,888,636,341**
LIABILITIES			
Current liabilities			
Accounts Payable	7	280,008,155	198,554
TOTAL LIABILITIES		**280,008,155**	**198,554**
NET ASSETS		**2,964,774,422**	**2,888,437,787**
PUBLIC EQUITY			
Contributed capital		2,778,058,656	2,778,058,656
Available for sale revaluation reserve		42,682,244	1,215,971
Accumulated surplus		144,033,522	109,163,160
TOTAL EQUITY		**2,964,774,422**	**2,888,437,787**

REPUBLIC OF TRINIDAD AND TOBAGO
2009/11/26
AUDITOR GENERAL

SAMUEL MARTIN
(Chairman)

EWART WILLIAMS

MARLON HOLDER

ALISON LEWIS

The accompanying notes form an integral part of these financial statements

1

Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago

Statement of Comprehensive Income
for the year ended 30 September 2009
(Expressed in United States Dollars)

	Sep-09 $	Restated Sep-08 $
Income		
Interest Income	30,424,168	68,177,088
Investment expenses	(2,686,959)	(289,669)
Gain from sale of investments	9,730,989	2,020
Loss from sale of investments	(3,956,831)	-
Dividend Income	2,296,089	-
Income from investments	**35,807,456**	**67,889,439**
Other Income	300	4,695
Total income	**35,807,756**	**67,894,134**
Expenditure		
Management Fees	874,801	615,466
Bank Charges	49,026	78,195
Audit Fees	3,068	3,674
Licence Fees	10,499	-
Total expenditure	**937,394**	**697,335**
Net profit for the year	**34,870,362**	**67,196,799**
Other comprehensive income:		
Available-for-sale financial assets - Unrealised gain from fair value changes	41,466,273	1,215,971
Other comprehensive income for the year	**41,466,273**	**1,215,971**
Total comprehensive income for the year	**76,336,635**	**68,412,770**

The accompanying notes form an integral part of these financial statements

2

Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago

Statement of Changes in Equity
for the year ended 30 September 2009
(Expressed in United States Dollars)

	Contributed Capital	Available for Sale Revaluation Reserve	Accumulated Surplus	Total
	$	$	$	$
Balance as at 1 October 2007	**1,723,884,198**	-	**41,966,361**	**1,765,850,559**
Contributions from Government for the year	1,054,174,458	-	-	**1,054,174,458**
Total comprehensive income for the year	-	1,215,971	67,196,799	**68,412,770**
Balance as at 30 September 2008	**2,778,058,656**	**1,215,971**	**109,163,160**	**2,888,437,787**
Balance as at 1 October 2008	**2,778,058,656**	**1,215,971**	**109,163,160**	**2,888,437,787**
Total comprehensive income for the year	-	41,466,273	34,870,362	**76,336,635**
Balance as at 30 September 2009	**2,778,058,656**	**42,682,244**	**144,033,522**	**2,964,774,422**

The accompanying notes form an integral part of these financial statements

3

Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago

Statement of Cash Flows
for the year ended 30 September 2009
(Expressed in United States Dollars)

	Note	Sep-09	Restated Sep-08
		$	$
Cash flows from operating activities			
Net profit for the year		34,870,362	67,196,799
Adjustments			
Interest income		(30,424,168)	(68,177,088)
Amortisation of bond premium		1,670,620	289,669
Net realised gain from changes in fair value of investment		(5,774,158)	(2,020)
Dividend income		(2,296,089)	-
Cash flows before changes in operating assets and liabilities		**(1,953,433)**	**(692,640)**
Changes in operating assets and liabilities			
Decrease/(increase) in accounts receivable		259,862,266	(173,844,377)
Increase/(decrease) in accounts payable		279,809,601	(145,765)
Net cash flows from/(used in) operating activities		**537,718,434**	**(174,682,782)**
Cash flows from investing activities			
Interest received		30,331,083	64,255,541
Dividend received		810,202	-
Purchase of investments		(1,789,862,627)	(147,204,078)
Proceeds from sale of investments		33,329,289	25,061,801
Net cash used in investing activities		**(1,725,392,053)**	**(57,886,736)**
Cash flows from financing activities			
Contributed capital		-	1,054,174,458
Net cash flows from financing activities		**-**	**1,054,174,458**
Net (decrease)/increase in cash and cash equivalents		(1,187,673,619)	821,604,940
Cash and cash equivalents, beginning of year		2,341,921,417	1,520,316,477
Cash and cash equivalents, end of year	4	**1,154,247,798**	**2,341,921,417**

The accompanying notes form an integral part of these financial statements

4

Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago

Notes to the Financial Statements
for the year ended 30 September 2009
(Expressed in United States Dollars)

1. Incorporation and Principal Activities

The Heritage and Stabilisation Fund Act, 2007 of the Republic of Trinidad and Tobago, (the Act), provides for the establishment and management of the Heritage and Stabilisation Fund (the Fund). It was established on 15 March 2007 and is denominated in the currency of the United States of America.

The President, upon the advice of the Minister of Finance, appointed a Board of Governors for the Fund on 6 July 2007. This Board comprises five members, who are appointed for a term of three years and shall be eligible for reappointment. Members are selected from among persons of proven competence in matters of finance, investment, economics, business management or law, including an officer of:

a) The Central Bank; and

b) The Ministry of Finance.

The Board has delegated the responsibility for the management of the Fund to the Central Bank of Trinidad and Tobago, (the Bank).

The purpose of the Fund is to save and invest surplus petroleum revenues derived from production business in order to -

a) cushion the impact on or sustain public expenditure capacity during periods of revenue downturn whether caused by a fall in prices of crude oil or natural gas;

b) generate an alternate stream of income so as to support public expenditure capacity as a result of revenue downturn caused by the depletion of non-renewable petroleum resources; and

c) provide a heritage for future generations, of citizens of Trinidad and Tobago, from savings and investment income derived from the excess petroleum revenues.

Upon the commencement of this Act, the monies held in the Interim Revenue Stabilisation Fund established under the Exchequer and Audit Act were transferred to the Fund, whereupon the Interim Revenue Stabilisation Fund ceased to exist.

The resources of the Fund consist of:-

a) monies transferred from the Interim Revenue Stabilisation Fund;

b) petroleum revenues deposited into the Fund; and

c) assets acquired and earned from investments.

Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago

Notes to the Financial Statements
for the year ended 30 September 2009 (continued)
(Expressed in United States Dollars)

2. Accounting Policies

a) *Basis of accounting*

The Financial Statements of the Fund have been prepared under the Historical Cost Convention and are prepared in accordance with International Financial Reporting Standards and the Act.

The Board undertook early adoption of IAS 1 (Revised), Presentation of Financial Statements (effective from 1 January 2009). The revised standard prohibited the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).

b) *Cash and cash equivalents*

Cash and cash equivalents are defined as cash on hand and at bank, bank overdraft and deposits maturing within three months from the financial statements' date. Cash on hand, cash in bank, bank overdraft and deposits are carried at cost.

c) *Investments*

The Fund classifies its investment securities in the category "Available for Sale".

Available for sale

These investments are intended to be held for an indefinite period of time, and may be sold in response to needs for liquidity or to meet the goals of the strategic asset allocation approved by the Fund's Board.

i. Measurement

Available for sale securities are initially recognised at cost, (which includes transaction costs), and are subsequently re-measured at fair value. Regular purchases and sales are recognized on the trade date. Thus, any agreements made before the Statement of Financial Position date, with expectations of settlement thereafter, will give rise to both a financial asset and financial liability which is recognised in the Statement of Financial Position.

Unrealised gains and losses on these investments are recognised in the Statement of Comprehensive Income under Other Comprehensive Income.

When the securities are disposed of, the related accumulated fair value adjustments are included in the Statement of Comprehensive Income as realised gains and losses from investment securities.

Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago

Notes to the Financial Statements
for the year ended 30 September 2009 (continued)
(Expressed in United States Dollars)

2. Accounting Policies (continued)

c) Investments

ii. Fair value estimation

The fair value of quoted financial assets in active markets is based on current bid prices. For unlisted financial assets and those where the market is not active, the Fund establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, pricing models and other valuation techniques commonly used by market participants.

d) Premium/Discount

A premium arises when a bond or treasury bill price is higher than its par value. This occurs because the interest rate is higher than the prevailing rates in the market, thus making the bond or treasury bill worth more than a security paying a lower rate.

A discount arises when a bond or treasury bill price is lower than its par value. This occurs when the interest rate rises; newly issued securities have higher coupons than existing securities issued when market rates were lower. Thus, coupon rates of securities trading at a discount are generally lower than similar quality, newly issued securities.

The premium is treated as an asset on the Statement of Financial Position, due to the future economic benefit expected from the bond or treasury bill. Similarly, a discount is treated as a liability on the Statement of Financial Position.

e) Income and Dividends

Interest income is accounted for on the accruals basis.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Dividend income is recognised on the accruals basis when the shareholder's right to receive payment is established.

f) Expenses

Expenses are recognised on the accrual basis, i.e. in the period when they were incurred.

g) Taxation

The Fund is a public account and by Section 17 of the Act is exempt from any tax.

2. Accounting Policies (continued)

h) Accounts receivable
Accounts receivable are stated at their expected realisable value.

i) Accounts payable
Accounts payable are stated at their expected amounts.

j) Comparative information
When necessary, comparative data has been adjusted to conform with changes in presentation in the current year.

k) Statement of cash flows

- **Operating activities** include all activities other than investing and financing activities. The cash inflows include all receipts from the sources of revenue that support the Fund's operating activities. Cash outflows include payments made to suppliers.

- **Investing activities** are those activities relating to the acquisition and disposal of current and non-current securities and any other non-current assets. Investments include securities not falling within the definition of cash.

- **Financing activities** are those activities relating to changes in equity of the Fund and those activities relating to the cost of servicing the Fund's equity capital.

- **Cash** means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which the Fund invests as part of its day-to-day cash management.

l) Capital contributions
In accordance with Section 14 of the Act:

a) a minimum of sixty per cent of the aggregate of the excess revenues shall be deposited to the Fund during a financial year;

b) all revenues to be deposited into the Fund shall be a charge on the Consolidated Fund.

The deposits are to be made no later than the end of the month following the quarter in respect of which the deposit was calculated.

Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago

Notes to the Financial Statements
for the year ended 30 September 2009 (continued)
(Expressed in United States Dollars)

3. Financial Risk Management

a) Portfolio Performance

The portfolio performance for the twelve months ended 30 September 2009 was as follows:

12 Months Performance			
Portfolio	**Fund**	**Benchmark Return**	**Benchmark Composition**
Composite	2.79%	3.18%	Merrill Lynch US Government Treasury 1-5 Years Index , US 1-month LIBID, Barclays Capital US Aggregate Bond Index, Russell 3000 (ex Energy), MSCI EAFE (Ex Energy)
Money Market	0.70%	0.93%	US 1-month LIBID
U.S. Treasury Portfolio	0.26%	0.26%	Merrill Lynch US Government Treasury 1-5 Years Index
US Short Duration Fixed Income Portfolio	0.19%	0.17%	Merrill Lynch US Government Treasury 1-5 Years Index
US Core Fixed Income	0.44%	0.51%	Barclays Capital US Aggregate Bond Index
US Core Domestic Equity	0.55%	0.59%	Russell 3000 (Ex Energy)
Non US Core International Equity	0.61%	0.69%	MSCI EAFE (Ex Energy)

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Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago

Notes to the Financial Statements
for the year ended 30 September 2009 (continued)
(Expressed in United States Dollars)

3. Financial Risk Management (continued)

b) Portfolio Risk

The main risks for the Fund's portfolio are Credit risk, Interest rate risk, Concentration risk and Currency risk.

Credit Risk
This is the risk that a third party will default on its obligation to the Fund, causing the Fund to incur a loss.

Both the equity and fixed income portfolios are exposed to counterparty risk, risk of the custodian institutions with which securities are deposited, as well as international settlement and custody systems (counterparty risk). All fixed income instruments in the Fund's benchmark index have a rating from Standard & Poor's, Moody's or Fitch.

The portfolio's credit risk is minimised by strict adherence to credit quality and concentration limit. Credit risk is mitigated by the establishment of ratings standards that each money market counterpart must fulfil. Currently, these standards require money-market counterparts to have a minimum credit rating of A1 from Standard and Poor's, or P1 from Moody's. Credit risk is also managed by limiting the exposure of a single counterparty to 5% of the Fund.

All Rating Agencies classify the issuers of fixed income instruments on the basis of their creditworthiness. A credit rating scale from AAA to D is used for long-term bonds. The highest rating is AAA from S&P and Fitch and Aaa from Moody's. The lowest investment grade ratings are BBB- from S&P and Fitch and Baa from Moody's. Lower ratings are known as speculative grade. All bonds in the Fund's benchmark portfolio have an investment grade rating.

Concentration Risk
Concentration or diversification risk is the risk of loss attributable to holding investments from a single investment style or class. The Strategic Asset Allocation (SAA) seeks to reduce this risk by ensuring the Fund's assets are invested across various asset classes. The SAA would be invested across four asset classes as follows; US Short Duration Fixed Income Mandate, US Core Domestic Fixed Income Mandate, US Core Domestic Equity Mandate, Non US Core International Equity Mandate. Each asset class that the Fund invests in reacts differently under the same market conditions and usually when one asset class has strong returns, another will have lower or even negative returns. By diversifying the Fund's investments across a number of asset types, the Fund would better ensure a positive return under a range of market conditions and lowers the total risk of the portfolio.

Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago

Notes to the Financial Statements
for the year ended 30 September 2009 (continued)
(Expressed in United States Dollars)

3. Financial Risk Management (continued)

Market Risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

The Fund's market risk is determined by the benchmark portfolio's market risk. The Fund also takes risk through active management which is outsourced to International Fund Managers. The Fund measures both absolute and relative market risk in the Fund. Absolute risk is estimated on the basis of the actual portfolio, while relative risk is estimated as the standard deviation of the difference between the return on the actual portfolio and the return on the benchmark portfolio.

a. ***Currency Risk***
This is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The portfolio is held only in US dollars, the base currency.

For the Fixed Income and US Core Domestic Equity mandates, no more than 10% of the market value of the portfolio can be invested in securities denominated in currencies other than the US Dollar. For the Non US Core International Equity mandates, the Fund absorbs the currency risk with currency hedging allowed for up to 15% of the market value of the portfolio. The Fund currently does not have any currency hedging investments.

b. ***Interest Rate Risk***
This is the risk that the value of a financial instrument will fluctuate, due to changes in market interest rates. The interest rate risk of the portfolio is managed by strict adherence to the overall duration of the portfolio, which is set at two years. The managers do not consider that there is any significant interest exposure on the Fund's investments.

Interest Rate Risk is managed using a weighted average effective duration limit on the respective portfolios, with an allowable range of one (1) year longer or shorter than the weighted average duration of the respective Benchmark.

Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago

Notes to the Financial Statements
for the year ended 30 September 2009 (continued)
(Expressed in United States Dollars)

3. Financial Risk Management (continued)

c. ***Price Risk***
This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instruments or issuer, or factors affecting all similar financial instruments traded in the market. Market price risk is managed through a diversification of the financial asset portfolio. The managers of the Fund set prudent exposure limits among its asset classes through the Operational and Investment Policy.

Liquidity Risk
This is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Management believes that the Fund has sufficient resources to meet the present and foreseeable needs of its business operations. Management's guiding policies are to maintain conservative levels of liquidity to ensure that the Fund has the ability to meet its obligations at short notice. This is achieved by laddering the maturity of the time deposits. The relatively short tenors also serve to maintain a very liquid portfolio and mitigate the Liquidity Risk.

Operational Risk
This is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. It is managed through organisational policies, procedures and operational frameworks utilised by the Bank for management of the Fund. The internal and external processes for the Fund are similar to those which exist for management of the Official Reserves. These processes are tested and audited annually. The Bank strives to continually comply with international best practice.

The geographical concentration of the Fund's deposits is set out below.

Territory	**Sep-09**	**Sep-08**
	$	**$**
Belgium	-	117,763,828
Canada	60,251,394	71,127,014
France	60,172,923	119,765,710
Netherlands	120,845,445	176,868,858
Switzerland	31,339,533	119,646,749
United Kingdom	392,949,030	908,370,664
United States of America	352,375,997	644,376,438
	1,017,934,322	**2,157,919,261**

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Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago

Notes to the Financial Statements
for the year ended 30 September 2009 (continued)
(Expressed in United States Dollars)

4. Cash and cash equivalents

	Sep-09 $	Sep-08 $
Fixed deposits	1,017,934,322	2,157,919,261
Cash at Bank	136,313,476	184,002,156
	1,154,247,798	**2,341,921,417**

5. Investments

	Sep-09 $	Sep-08 $
Available for sale investments		
Cost	1,884,451,793	122,144,297
Appreciation/diminution in market value	42,682,244	1,215,971
Net Premium	(1,960,290)	(289,670)
Net Book Value	**1,925,173,747**	**123,070,598**

6. Accounts Receivable

	Sep-09 $	Sep-08 $
Amount due from Central Bank of Trinidad and Tobago	-	415,838,362
Interest Receivable	7,899,050	7,805,964
Dividends Receivable	1,485,887	-
Pending Trades - Investments Sold	155,976,095	-
	165,361,032	**423,644,326**

- Accounts Receivable as at 30 September 2009 includes Pending Trades – Investments Sold in the amount of USD 155,976,095 which were subsequently settled in October 2009.

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Heritage and Stabilisation Fund of the Republic of Trinidad and Tobago

Notes to the Financial Statements
for the year ended 30 September 2009 (continued)
(Expressed in United States Dollars)

7. Accounts Payable

	Sep-09 $	Sep-08 $
Accruals	1,166,209	198,554
Pending Trades - Investments Purchased	278,841,946	-
	280,008,155	**198,554**

- At 30 September 2009 there were Pending Trades – Investments Purchased in the amount of USD 278,841,946. These will be subsequently settled during the period October 2009 to January 2010.

8. Asset management agreements
Under Section 10(2) of the Act, the Bank as Manager of the Fund is responsible for the management of the assets and other resources of the Fund.

9. Board and Other Expenses
Under Section 4(6) of the Act, the members of the Board shall be paid such remuneration and allowances as may be determined by the Minister of Finance. These expenses, along with other operating expenses of the Fund's Secretariat are met from the Consolidated Fund, and thus do not form a part of the Financial Statements of the Fund.

10. Capital contributions
Capital contributions are calculated based on criteria set out under Sections 13(1) and 14 of the Act, (see Note 2 (l)). During the current financial year ended 30 September 2009 no capital contributions were made given the level of petroleum revenues collected.